



January 10, 2007

Dear Hoosier Customers:

Today marks the second year since Governor Daniels was sworn in as Indiana's Governor, and we have much to celebrate at the Indiana Finance Authority (IFA). This past year, the IFA further realized its mission of providing effective financing solutions to facilitate government and business investments in Indiana as evidenced by the following accomplishments.

No project more embodied the IFA's mission than our lease of the Indiana Toll Road for \$3.8 billion. With negative cash flow results in five of the past seven years, insufficient funds to add lanes where the road failed State congestion standards, and \$200 million of debt outstanding, our once great toll road was struggling. As required by the new lease with a private company, toll road customers will finally have electronic tolling, finally have reduced congestion and finally have a road our State Police can confidently call safe, all to be funded by the private company in addition to the \$3.8 billion received. Earning over \$500,000 a day in interest, this massive sum has already earned \$100,000,000 in interest – more than the cumulative 52-year history of profits from the toll road that went to state and local road projects.

With the Governor's leadership and strong support from many members of the Indiana General Assembly, proceeds from the toll road lease have been dedicated to local and state road construction across the state, giving Indiana the envious title of the only state in the country with a fully-funded long term transportation plan. The \$3 billion transportation funding deficit has been wiped out, and state projects across the state that have been on the drawing board for years, in some cases decades, will soon be a reality. These long awaited projects include the US 31 upgrade between Indianapolis and South Bend, the Hoosier Heartland Corridor, bridges over the Ohio River, a new terrain I-69 from Evansville to Indianapolis, "Fort to Port" and nearly 200 other projects. Hoosiers can finally stop dreaming and start digging.

The construction jobs needed for this massive building plan and the many, many jobs that will follow as businesses choose to locate and expand in Indiana based on our God-given location and world-class transportation network are investments that will yield high returns for years to come. This innovative plan crafted by Governor Daniels and executed by the IFA has already received six awards including "Deal of the Year" by the Bond Buyer and is being replicated across the country.

The IFA also led the State's efforts in communicating with the credit rating agencies and helped achieve two credit rating upgrades this year. Standard & Poor's Ratings Service upgraded the State's credit rating from AA to AA+, and for the first time in five years Moody's Ratings Service no longer has a stated negative outlook on the State's credit as our outlook was upgraded to neutral. Most of the credit goes to the Governor as primary reasons cited for these upgrades include the Indiana's economic recovery, state government's spending restraint and the repayments of amounts owed by the state to schools and local government. IFA efforts were also acknowledged including improved management and oversight of State debt as a result of the IFA consolidation and the early retirement of all IFA Moral Obligation debt, which included the Toll Road bonds, Qualitech Steel and Heartland Steel debt. We look forward to the opportunities that our higher credit rating will provide in reduced borrowing costs for the state as well as schools and local governments that have their credit rating tied to the State's.

Not only did the IFA assist in these major accomplishments, but it continued to fuel business investment. The IFA launched its Shovel Ready Sites program which certifies potential development sites to attract businesses seeking to move or build a business operation quickly. Twelve sites were certified this year, two of which have already attracted businesses to locate on the site including the Honda plant in Greensburg. Other IFA business-related programs including the Capital Access program, the Loan Guaranty program and the Tax-Exempt bond program collectively helped to create 1,844 jobs this year. Finally, IFA's Broadband Finance program helped over 600 subscribers in unserved areas of the State finally log on to the Internet highway, opening commerce opportunities throughout the world.

In our Environmental Finance division, the State Revolving Fund (SRF) Programs had another successful year. Projects funded through the SRF Programs in 2006 will impact the lives of more than 1 million Indiana residents, either by improving the quality of drinking water or cleaning up waterways. Communities and water systems saved over \$38 million by using the SRF Program's subsidized interest rates rather than borrowing on the open market. The 39 projects borrowed \$260 million from SRF and eliminated 1,284 septic systems. SRF was especially proud to assist with the Honda deal as it provided a 0% loan to the City of Greensburg, allowing the City to provide the drinking water and wastewater infrastructure needed for the new Honda plant. The ability to provide this infrastructure was a key element in Honda's decision to locate in Greensburg.

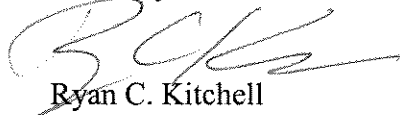
SRF also helped small drinking water systems meet the U.S. EPA's more stringent standards by creating the Arsenic Remediation Grant Program. In 2006, seven Indiana drinking water systems received grant funding from SRF to further improve water quality.

The Indiana Brownfields Program implemented the Stipulated Remediation Grant, which is the first State grant available for the remediation of non-petroleum contamination. In calendar 2006, the Program awarded 50 grants and low-interest loans totaling nearly \$6 million. This funding will be matched by more than \$90 million in

private and local government investment in brownfields redevelopment projects across the State. The Program also issued over 30 letters addressing liability and environmental site conditions that allowed brownfield sites to progress with redevelopment, with over 1,000 acres being cleaned up or having been determined that no cleanup was necessary.

We encourage you to explore our newly-revamped website that provides information on the various programs and services of the IFA. We are proud of the strides we have made during 2006, however there is still much to do: growing Hoosier jobs and income, improving quality of life with cleaner land and waterways, and achieving financial excellence for the State that ultimately saves Hoosiers money. We will continue our relentless pursuit of these goals in 2007 and beyond. Thank you for your interest in the Indiana Finance Authority.

Sincerely,

A handwritten signature in black ink, appearing to read 'RCK', is written over the printed name.

Ryan C. Kitchell
Public Finance Director
for the State of Indiana